

VZCZCXRO5636
RR RUEHCHI RUEHDT RUEHHM RUEHNN
DE RUEHGP #2978/01 2610741
ZNR UUUUU ZZH
R 180741Z SEP 06
FM AMEMBASSY SINGAPORE
TO RUEHC/SECSTATE WASHDC 1258
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 2300
RUEHBY/AMEMBASSY CANBERRA 1741
RUEHNE/AMEMBASSY NEW DELHI 1588
RUEHHK/AMCONSUL HONG KONG 6087
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEHIN/AIT TAIPEI 6373
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 02 SINGAPORE 002978

SIPDIS

SENSITIVE
SIPDIS

STATE PASS TO FEDERAL RESERVE BOARD KJOHNSON

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [ETRD](#) [EINV](#) [PREL](#) [IMF](#) [IBRD](#) [SN](#)

SUBJECT: FED CHAIRMAN BERNANKE MEETS WITH SINGAPORE
LEADERSHIP

¶1. (SBU) Summary: China's economic development and its economic relationship with the United States figured prominently in separate meetings between Chairman of the Federal Reserve Board Ben Bernanke and Prime Minister (PM) Lee Hsien Loong and Minister Mentor (MM) Lee Kuan Yew. Both the PM and MM emphasized that Singapore must continue to innovate in order to remain competitive with China and India. PM Lee speculated that an "ASEAN plus three" Free Trade Agreement (FTA) could be forthcoming. End summary

U.S.-China

¶2. (SBU) During September 15 discussions with GOS leadership prior to G-7 and IMF/World Bank meetings, Chairman Bernanke noted Treasury Secretary Paulson's recent comment that the United States needed to engage China on a broader range of economic issues beyond exchange rates. Bernanke added the external deficit was not a problem the United States could solve alone. The PM and MM agreed, suggesting that the United States begin a high-level dialogue with the Chinese focusing on long-term solutions and avoiding more "granular" stumbling blocks. MM Lee said that the United States must realize that the Chinese prefer to deal with trusted interlocutors and that they would only make adjustments at a cautious pace that allowed them to avoid disturbing social stability. With this in mind, the MM suggested developing relationships with the Chinese that were not subject to changing administrations.

¶3. (SBU) According to MM Lee, one problem was that the Chinese, having suffered through terrible deprivations, were habitually worried about financial security, hence their high savings rate. This mindset was gradually changing, he continued, and wealthy and even middle-income Chinese were starting to spend more, especially when traveling outside the country, where the quality and availability of goods was still better than in China. MM Lee said that the Chinese government understood the need to make economic changes and that China now had a large number of foreign-trained experts in the public and private sectors who had the desire and ability to carry out the changes. In his meeting, PM Lee offered that, while China was generally moving in the right direction, the government now needed to do more to stimulate domestic spending. Both the MM and PM told Chairman Bernanke that the Chinese government understood the need for a strong U.S. economy and would not risk harming the relationship.

Singapore-China

¶4. (SBU) Responding to Chairman Bernanke's question about the size of Singapore's investments in China, PM Lee described the investments as large taken on per capita basis, and he also highlighted that more than 2,000 Chinese companies operated in Singapore. Singaporeans and Chinese had different methods of conducting business, so working in China had proven more difficult than many people expected. He said smaller Singaporean companies continued to be competitive in the China market, however.

Singapore's Future

¶5. (SBU) Both the PM and MM told Chairman Bernanke that, although Singapore's economy was doing well, the country needed to innovate to sustain its growth. For now this meant focusing on areas where India and China could not yet offer strong competition, such as systems, research and development, creative media, and IPR-intensive businesses. As China and India strengthened their laws and improved their infrastructure, they will pose an even greater economic threat to Singapore, cautioned MM Lee. Looking ahead, MM Lee said the government was encouraging its Muslim population to learn Arabic in the hope that Singapore could act as an entry point for Middle Eastern investments in China.

Rising Energy Costs

¶6. (SBU) In reply to Chairman Bernanke's observation that

SINGAPORE 00002978 002 OF 002

Singapore seemed unaffected by recent increases in oil prices, PM Lee said that Singapore's proximity to Malaysia and Indonesia had helped soften the blow. Both countries had benefited from the price rise, he continued, which translated into increased tourism for Singapore; Singapore's oil rig construction industry had also benefited from the increase. PM Lee noted that because Singapore did not subsidize energy, domestic consumers had been hardest hit, with electricity costs rising 30 percent.

East Asia FTA?

¶7. (SBU) Turning to regional issues, Chairman Bernanke asked PM Lee about the possibility of an East Asia FTA. The PM said that ASEAN is currently negotiating FTAs with Japan and Korea, and that China supported this framework. PM Lee said he suspected an "ASEAN plus three" (China, Japan, and Korea) FTA might be possible in the future.

¶8. (U) A Federal Reserve official cleared this message.
HERBOLD